GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1149
ANSWERED ON:24.10.2008
MERGER OF UNDER PERFORMING BANKS
Barman Shri Hiten

Will the Minister of FINANCE be pleased to state:

(a) whether a high level committee set up by the Government has mooted a proposal to sell the small and under performing Public Sector Banks (PSBs) in the country;

(b) if so,the details thereof;

(c) whether the Government proposes to merge the small and under performing public sector banks with profit earning banks rather than selling them;and

(d) if so, the details thereof?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a) & (b): With a view to outline a comprehensive agenda for the evolution of the financial sector indicating especially the priorities and sequencing decision which the Government may keep in mind,Planning Commission had set up a High Level Committee on Financial Sector Reforms headed by Shri Raghuram G. Rajan.On a proposal to sell small underperforming public sector banks,possibly to another bank or to a strategic investor,to gain experience with the process and gauge outcomes, the Committee has,in its report,opined as under:-

`For the largest PSBs, the options are more limited.The selling of large PSBs to large private sector banks would raise issues of concentration. The selling of banks to industrial houses has been problematic across the world from the perspective of financial stability because of the propensity of the houses to milk banks for `self-loans`.Without a substantial improvement in the ability of the Indian system to curb related-party transactions, and to close down failing banks, this could be a recipe for financial disaster. While large international banks could swallow our largest banks,it is unlikely that this would be politically acceptable, at least in the foreseeable future.That leaves a sale through a public offering.But such a sale would require confidence in the corporate governance of these enterprises so that a high price can be realized. This Committee therefore believes that the second aspect of the pragmatic approach,especially for large and better performing public sector banks,should be to focus on reforming the governance structure,while perhaps also acquiring strategic partners,with the eventual disposition determined based on experience with privatization,the public mood,and the political environment`.

The draft report of the Committee is available at Planning Commission`s website www.planningcommission.gov.in.

(c) & (d): There is no proposal to sell Government`s stake in any public sector bank.As regards consolidation, Government is of the view that any such proposal by way of merger etc.,of one public sector bank with another public sector bank,should emanate from the concerned banks with Government playing a supportive role.